

COUNTY OF YORK

MEMORANDUM

DATE: March 5, 2004 (BOS Mtg. 3/16/04)

TO: York County Board of Supervisors

FROM: James O. McReynolds, County Administrator

SUBJECT: Partial real estate tax exemption for rehabilitated or renovated commercial or industrial structures located on Route 17

The Industrial Development Authority (IDA) was tasked by the Board of Supervisors to develop a plan to improve the appearance and economic viability of the Route 17 business corridor. In response to that direction, the IDA formed a Route 17 Revitalization Committee (Committee) comprised of County staff, Route 17 business owners, Virginia Department of Transportation (VDOT) staff, and representatives from the following organizations: York County Chamber of Commerce, Planning Commission, Master Gardeners, and the Beautification Committee.

In August of 2003 the Committee completed a final draft of the Route 17 Corridor Revitalization, Recommendations for Action, a comprehensive report assessing the current condition of the corridor and presenting 13 action options to improve the situation. The action options were broken into three categories Business Incentives, County Initiatives, and Regulatory Reform. The report was presented to the Board in September 2003 at a work session and subsequently modified to reflect Board input. The IDA formally adopted the report in November 2003, and staff began implementing selected action options. These initial steps included landscaping in medians, shoulders and other rights-of-way areas, and adding Block Number signs at major intersections. Subsequent to the aforementioned actions, the Board approved a Property Improvement Grant Program for the corridor that will be implemented in April. Another one of the key action options in the Business Incentive category is a partial tax exemption ordinance for certain rehabilitated or renovated commercial or industrial structures. The details of that proposed ordinance have been finalized and are now being presented to the Board for review and consideration. The proposed program will require adoption of an ordinance; and, accordingly, a public hearing has been scheduled for your March 16 meeting.

Long-time commercial property owners along the Route 17 corridor may be hesitant to renovate or expand because such improvements will currently result in increased real estate assessments and a higher tax burden. A partial tax exemption for property improvements to older commercial structures will give owners an incentive to improve and maintain the quality of their property. Even if the tax exemption is not the deciding factor, it may allow the owner to upgrade the quality of the improvements by lowering the tax burden.

Section 58.1-3221 of the Code of Virginia grants localities authority to give partial real estate tax exemptions for certain rehabilitated or renovated structures. Such structures

must be at least 20 years old (or 15 years old if within an enterprise zone) and must have undergone substantial renovation, rehabilitation or replacement for commercial or industrial use. An exemption can run for a period of up to 15 years, and may run at the full rate or be gradually reduced over the chosen period. The Board has the authority to restrict exemptions to properties located within certain specified areas and the maximum increase in square footage resulting from the rehabilitation.

Several localities throughout Hampton Roads have used the authority granted in Section 58.1-3221 to provide for partial tax exemptions for certain renovated or rehabilitated structures. In Hampton Roads, Newport News, Norfolk, Hampton, Suffolk, Portsmouth, and Virginia Beach all grant some form of partial tax exemption for certain revitalized structures. Williamsburg, James City County, Chesapeake, and Smithfield are all Hampton Roads localities that do not provide any form of exemption for certain revitalized structures. Numerous other localities throughout the main metropolitan regions of Virginia also provide some form of partial tax exemption for certain revitalized structures. These localities include Arlington, Falls Church, Fredericksburg, Fairfax, Manassas, Henrico County, Hanover County, and Roanoke.

While each locality differs in the specific provisions of its ordinance granting partial tax exemptions to certain revitalized structures, some common trends are worth noting. Almost every locality specifies a minimum required age of 20-25 years for commercial and industrial structures. The minimum required market value increase from the initial assessed value ranges as low as 20 percent, but generally lies somewhere between 40 percent and 60 percent. Not all localities specify a maximum square footage increase for the partial exemption, but those that do fall within a wide range. Some localities limit the exemption to increases at 15 percent and below, while others allow the exemption for rehabilitations that increase the square footage up to 100 percent from the original total. Again, the period of exemption ranges widely, from 5 years to the 15, with the most common option being 10 years. Application fees for the partial exemption range from \$20.00 to \$250.00.

After analyzing the information from other localities, the Committee recommended to the IDA that it support partial tax exemption program for renovated or rehabilitated commercial structures. The IDA subsequently adopted all of the Committee's recommendations for the program with one modification. The IDA felt that a longer period of benefit would encourage more participation and recommended that the exemption period be extended to 15 years. Economic Development staff has recommended a 10-year exemption because they believe the 15-year exemption is too long a time period for effective administrative oversight. After receiving input from the Board regarding the duration of the exemption period, a 5-year exemption period has been included in the text of the ordinance. The details of the proposed program are listed below:

- Minimum Age – 20 years
- Minimum Market Value Increase – 25%
- Maximum Square Footage Increase – 100%
- Partial Exemption Period – 5 Years

- Structure Type – Commercial or Industrial (allow residential conversion to solely commercial use)
- Application Fee - \$20
- Program Area – Route 17 Corridor Only (1,000 ft. from centerline)
- Program Not Applicable To Total Replacement Only Renovation or Expansion
- Exemption Is Limited To A Maximum Improvement Value Of \$500,000

The program will be primarily administered by the County Assessor's Office. The County Assessor's Office will receive applications, conduct baseline assessments, and post improvement assessments. Once the Assessor has determined the improved value, this information will be transmitted to the Commissioner of Revenue for appropriate billing. Assuming that the improvements meet the program criteria, the value of the improvements to the property is then exempted for 5 years. For example, if a commercial structure received a baseline assessment of \$100,000 and the improvements added \$50,000 to the value of the property, then \$50,000 would be exempted from taxation for 5 years. Using this same example, if the property increased in value during the next assessment cycle to a total of \$175,000, the tax bill would then be based on a value of \$125,000.

According to County records, there are approximately 90 commercial or industrial structures within the Route 17 Corridor that are 20 years or older. It is impossible to determine how many of these owners would be interested in this program and at what level of participation. Based on other localities experience, a 10 percent participation rate in the first year might be expected. Using this participation rate and an average valuation increase of \$100,000, the County would be exempting \$7,740 of real estate taxes annually. This loss should be partially offset by increased Business Personal Property taxes and BPOL revenue from the improved/expanded commercial enterprises. It should also be noted that the proposed program regulations limit any single exemption to a total valuation increase of \$500,000 that translates to \$4,300 in annual real estate tax revenue. Additionally, the proposed County ordinance does not allow any building expansion qualifying for this program to exceed doubling the size of the original structure.

The proposed partial tax exemption for renovated or rehabilitated commercial or industrial structures is another tool we can use to improve the condition of the Route 17 corridor. Many other communities are successfully utilizing this program. I believe we have put together requirements for our program that will be the most effective for the Route 17 corridor. I support utilizing this program to help achieve the vision for a more attractive and economically vibrant Route 17 corridor.

Proposed Ordinance No. 04-4(R) which, if adopted, will implement this program is scheduled for a public hearing at your March 16 meeting.

Noel/3318

Attachments